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1978 Annual Report

Zurich Life Insurance Company of Canada

Highlights

Business in Force	$1,982,645,295
New Individual Business	$ 152,462,280
New Group Life Insurance	$ 150,408,287
Premium Income	$ 24,726,569
Investment Income	$ 8,107,555
Policy Benefits	$ 13,534,895
Assets	$ 113,064,597
Net Earned Interest Rate	8.71%

Balance Sheet

Assets

	December 31 1978 (Note 1) $
BONDS (Note 2)	51,902,176
SHARES (Note 3)	3,240,778
FIRST MORTGAGE LOANS	38,739,623
REAL ESTATE	54,728
POLICY LOANS	5,383,409
CASH AND SHORT-TERM DEPOSITS	743,235
INVESTMENT INCOME DUE AND ACCRUED	1,484,548
SEGREGATED FUNDS	9,081,404
OTHER ASSETS	2,434,696
TOTAL ASSETS	113,064,597

Liabilities, Capital and Surplus

	December 31 1978 (Note 1) $
ACTUARIAL RESERVE FOR INSURANCE AND ANNUITY CONTRACTS (Note 4)	75,643,466
POLICY BENEFITS IN COURSE OF PAYMENT	3,689,266
POLICY BENEFITS ON DEPOSIT	4,913,764
POLICY DIVIDENDS PAYABLE	1,423,046
SEGREGATED FUNDS	8,916,292
OTHER LIABILITIES	2,432,784
TOTAL LIABILITIES	97,018,618
INVESTMENT VALUATION AND CURRENCY RESERVE	1,362,540
RESERVE FOR CASH VALUE DEFICIENCIES AND AMOUNTS OF NEGATIVE RESERVES	2,602,102
VALUATION RESERVE FOR MISCELLANEOUS ASSETS	1,292,491
TOTAL APPROPRIATED SURPLUS	5,257,133
SHARE CAPITAL Authorized: 25,000 shares of $20 par value. Issued: 10,002 shares.	200,040
UNAPPROPRIATED SURPLUS	10,588,806
TOTAL LIABILITIES, CAPITAL and SURPLUS	113,064,597

Approved on behalf of the Board:

R.N. Mackintosh, Director.
W. Leo Knowlton, Director.

Statement of Operations and Surplus

	For the Year 1978 (Note 1) $
INCOME	
Insurance and annuity premiums	24,726,569
Investment income (less expenses $146,410)	8,107,555
Other	878,849
	33,712,973
DISPOSITION OF INCOME	
Paid or set aside for policyholders	
Death and disability benefits	5,176,535
Matured endowments and cash surrenders	4,859,777
Annuity payments	936,763
Policy dividends	1,259,121
Accident and sickness benefits	1,302,699
Interest credited to amounts on deposit	261,173
Increase in actuarial reserve	7,621,172
Increase in segregated funds	1,950,890
Other	408,856
	23,776,986
Commissions	2,965,917
Operating expenses	4,957,215
Premium, income and other taxes	365,134
	32,065,252
NET INCOME	1,647,721
APPROPRIATIONS AND ADJUSTMENTS	
Reinstatement of pre-1978 non-admitted assets	1,279,348
Restatement of actuarial reserves	5,872,829
Investment valuation and currency reserve	766,505
Valuation reserve for miscellaneous assets	(1,290,973)
Reserve for cash value deficiencies and amounts of negative reserves	(2,602,102)
Dividends to shareholders	(100,020)
Other	50,641
INCREASE IN SURPLUS	5,623,949
SURPLUS, January 1	4,964,857
SURPLUS, December 31	10,588,806
ALLOCATED TO	
General surplus	10,364,869
Shareholders' surplus	58,825
Segregated funds' surplus	165,112
	10,588,806

Notes to the Financial Statements

1. The Financial Statements of the Company have been prepared in accordance with the revisions to the Canadian and British Insurance Companies Act proclaimed in 1978. Since the basis of presentation is significantly different from that employed in previous years, no comparative figures are shown for 1977.

2. The amount of $51,902,176 includes $151,392 in respect of unamortized losses on sales of bonds.

3. The amount of $3,240,778 includes $203,277 in respect of unrealized appreciation of shares.

4. The Actuarial Reserve has been determined taking into account deferred acquisition expenses of $6,656,576.

Directors' Report for the Year 1978

Your Directors are pleased to present the Annual Report of the Company for the year ended December 31, 1978.

SALES:

The year 1978 was a year of transition and consolidation in our individual insurance operations, following the restructuring of our marketing system. New Life and Annuity business put in force amounted to $152.4 million, a decline from $221.1 million in the preceding year. As expected, new Deferred Annuity sales continued to decline in the face of strong competition in the Registered Retirement Savings Plan market. However, while Individual Life sales were somewhat lower than in 1977, they did reach the second highest mark in the Company's history. New Group Life Insurance put in force increased 13.7% to $150.4 million. In addition, single premium immediate annuities were marketed for a part of the year, accounting for additional premium income of $4.2 million.

BUSINESS IN FORCE:

Total business in force at the end of 1978 amounted to $1.9 billion which compares to $1.8 billion at the end of 1977. Our Individual business in force increased by $36.0 million to $946.0 million, while Group Life in force increased by $67.0 million to just over $1.0 billion.

INCOME:

Total income for the year was $33.7 million relating to $26.8 million in 1977, an increase of over 25%. Premium income increased by $5.8 million to $24.7 million, which represents a gain of 31%. Investment income increased from $7.2 million to $8.1 million. The net rate of interest earned by the Company on its general life insurance funds, after deduction of investment expenses, was 8.71% as compared to 8.41% in the previous year.

The Company's investment policy during 1978 primarily recognized the need to provide maximum security to our policyholders. Virtually all new investments in 1978 were in the form of well-secured first mortgage loans on residential properties or corporate and government bonds.

POLICY BENEFITS:

During 1978 benefits to policyholders and beneficiaries amounted to $13.5 million. Of this amount $1.3 million represented benefits under Accident and Sickness policies.

CHANGES IN FINANCIAL REPORTING:

Significant changes were made to the Canadian and British Insurance Companies Act during 1978 which affect our financial statements for 1978 and later years. The amendments that will have the greatest impact are those dealing with actuarial liabilities. Prior to 1978 actuarial liabilities were determined using relatively conservative assumptions and methods in accordance with the then existing Act. The revised Act, while still requiring a reasonable degree of conservatism, prescribes a new modified reserving method using assumptions that are appropriate to the circumstances of the company and the policies in force and providing for the amortization of certain acquisition expenses.

A number of changes have also been made prescribing the methods to be used for valuing the various assets held by life insurance companies. Prior to 1978 there was no uniform method to account for capital gains and losses on invested assets. Commencing in 1978, realized and unrealized gains or losses on shares and realized gains or losses on bonds and mortgages will be brought into the Statement of Operations over a number of years and as a result appropriate adjustments are required in the valuation of assets. This will tend to give more proper recognition of year-by-year investment earnings and also eliminate arbitrary fluctuations, thereby making the resulting figures more consistent with the long-term nature of the life insurance business and its investment activities.

Additional information will now be provided in that certain assets such as recoverable advances to agents and the value of furniture and fixtures, which were not previously included in the balance sheet, are now included in the financial statements.

STRENGTH AND SECURITY:

The actuarial reserve held by the Company in accordance with the revised Canadian and British Insurance Companies Act to meet liabilities under its insurance and annuity contracts was $75.6 million. After the changes previously referred to and the Net Income for 1978, the unallocated general surplus of the Company was increased by $5.6 million to $10.5 million.

In addition, $5.2 million is held as appropriated surplus to cover

(a) the Investment Valuation Reserve of $1.3 million,
(b) $2.6 million excess of cash surrender values over actuarial reserves, and
(c) an amount of $1.2 million fully providing for the value of assets shown for advances to agents, furniture and fixtures.

ASSETS:

At the end of 1978 total assets of the Company amounted to $113.0 million, which includes $9.0 million in segregated investment funds. At the end of 1977 total assets were $100.1 million but it should be noted that because of the changes in the basis of financial reporting these amounts are not strictly comparable.

OPERATING EXPENSES:

Total operating expenses of the Company reduced to $4.9 million in 1978 from $5.7 million in 1977. On the other hand, commissions have increased from $2.6 million for 1977 to $2.9 million. While we have been extremely successful in limiting inflationary expense increases, these results also reflect the basic restructuring of our marketing system which has resulted in the reduction of many of our fixed marketing costs.

NET INCOME:

Net Income for 1978 amounted to $1.6 million as compared to a Net Loss of $1.1 million in 1977. While part of this substantial change is due to changes in financial reporting methods referred to previously, there is no doubt that much of the change is due to economies of operation. No provision has been made for Income Taxes in 1978 as we expect that our Tax Loss carryforward will be more than sufficient to cover 1978 taxable income.

MORTALITY AND MORBIDITY:

Our mortality experience during 1978 for individual insurance continued to be favourable, indicating a slight improvement over 1977. Our Group Life mortality experience was not as favourable due to poor experience on certain large groups which benefited from rate stabilization funds. These funds were drawn upon to the extent that the Group Life portfolio was marginally profitable for 1978. Morbidity experience under the Group Accident and Sickness portfolio, which is substantially reinsured with Zurich Insurance Company, was mixed so that the portion retained by the Company was profitable while the portion reinsured suffered a loss. Corrective measures will be instituted to improve the profitablity of the entire portfolio.

GENERAL:

The Directors would like to extend their sincere thanks to the staff, both in our branches and at Head Office, for their excellent contribution during 1978.

W. Leo Knowlton, Q.C.
Chairman of the Board

R.N. Mackintosh
President

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